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Intelligence Report

Office of Near Eastern and South Asian Analysis

Iranian Activity in Central Asia and the Caucasus ☐

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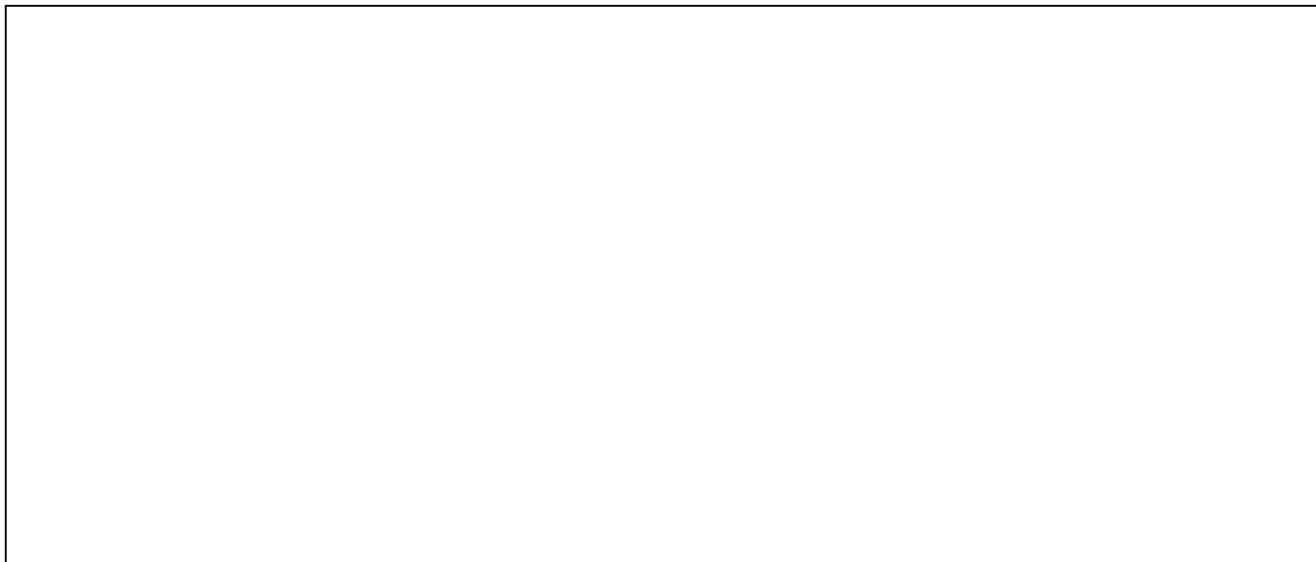
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NESA 97-10003CX
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Intelligence Report

Office of Near Eastern and South Asian Analysis

Iranian Activity in Central Asia and the Caucasus

This report was prepared by
 Office of Near Eastern
and South Asian Analysis, with contributions by
 Office of Russian and Eurasian
Analysis;
National Imagery and Mapping Agency; and
 NESA. It was
coordinated with the Directorate of Operations.

A secret version of this paper is available upon
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NESA,

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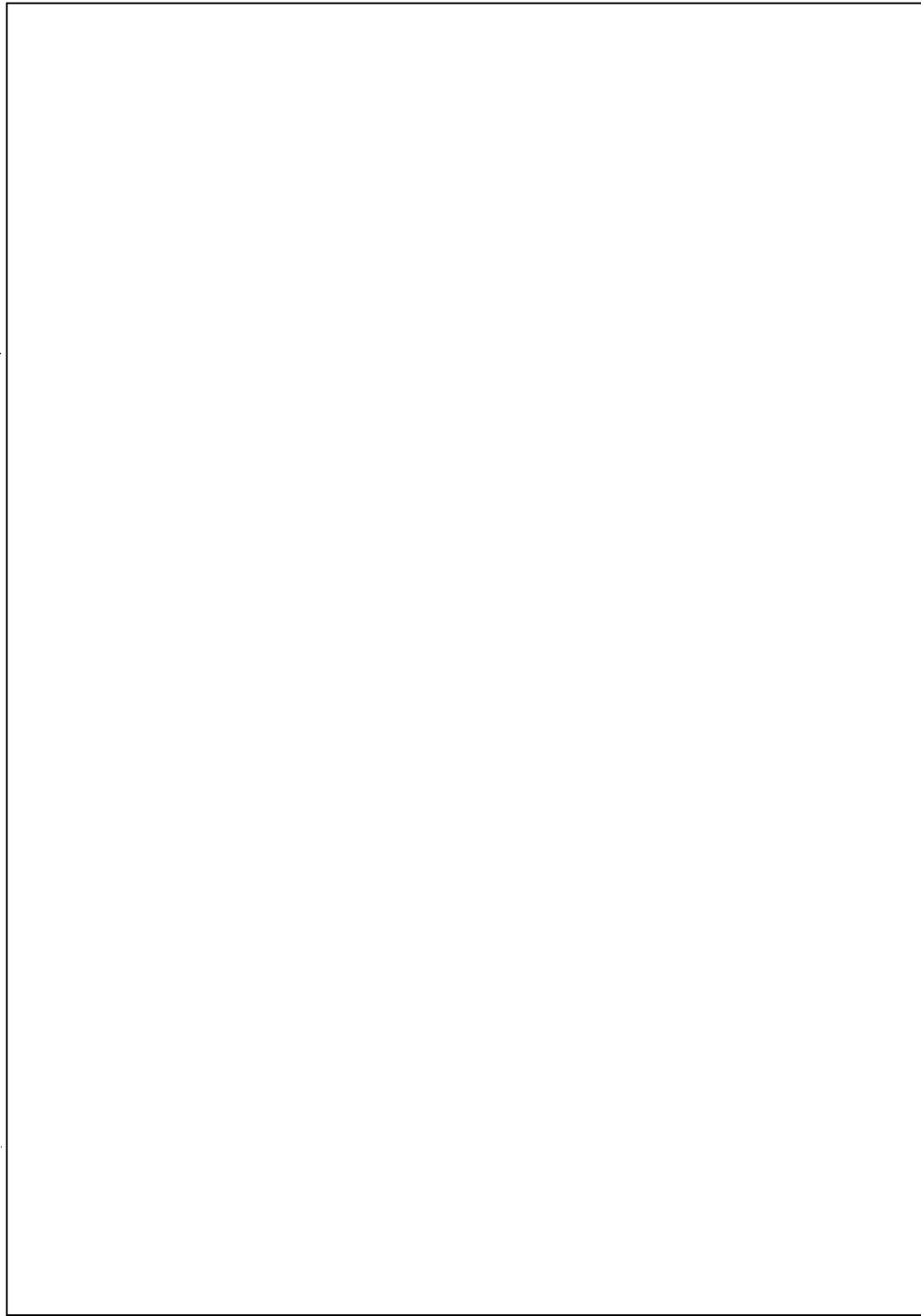
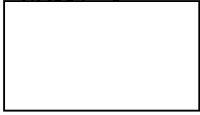
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**Iranian Activity in Central Asia
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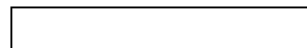
Tehran acted quickly to establish diplomatic ties to these states after they gained independence in 1991 and continues to court them by:

- Offering the southern tier states much needed economic cooperation and trying to present itself as a broker for these states in promoting regional trade ties and attracting foreign investment. Tehran has committed at least \$600 million in financial assistance to the southern tier states since 1991, and these financial initiatives have contributed to a significant increase in Iran's trade with this region—doubling since 1992 to roughly \$800 million in 1995, according to IMF data and press
- Trying in particular to establish itself as a player in the development of the Caspian Sea area, especially in the energy field.

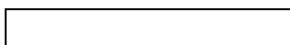
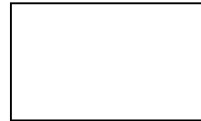
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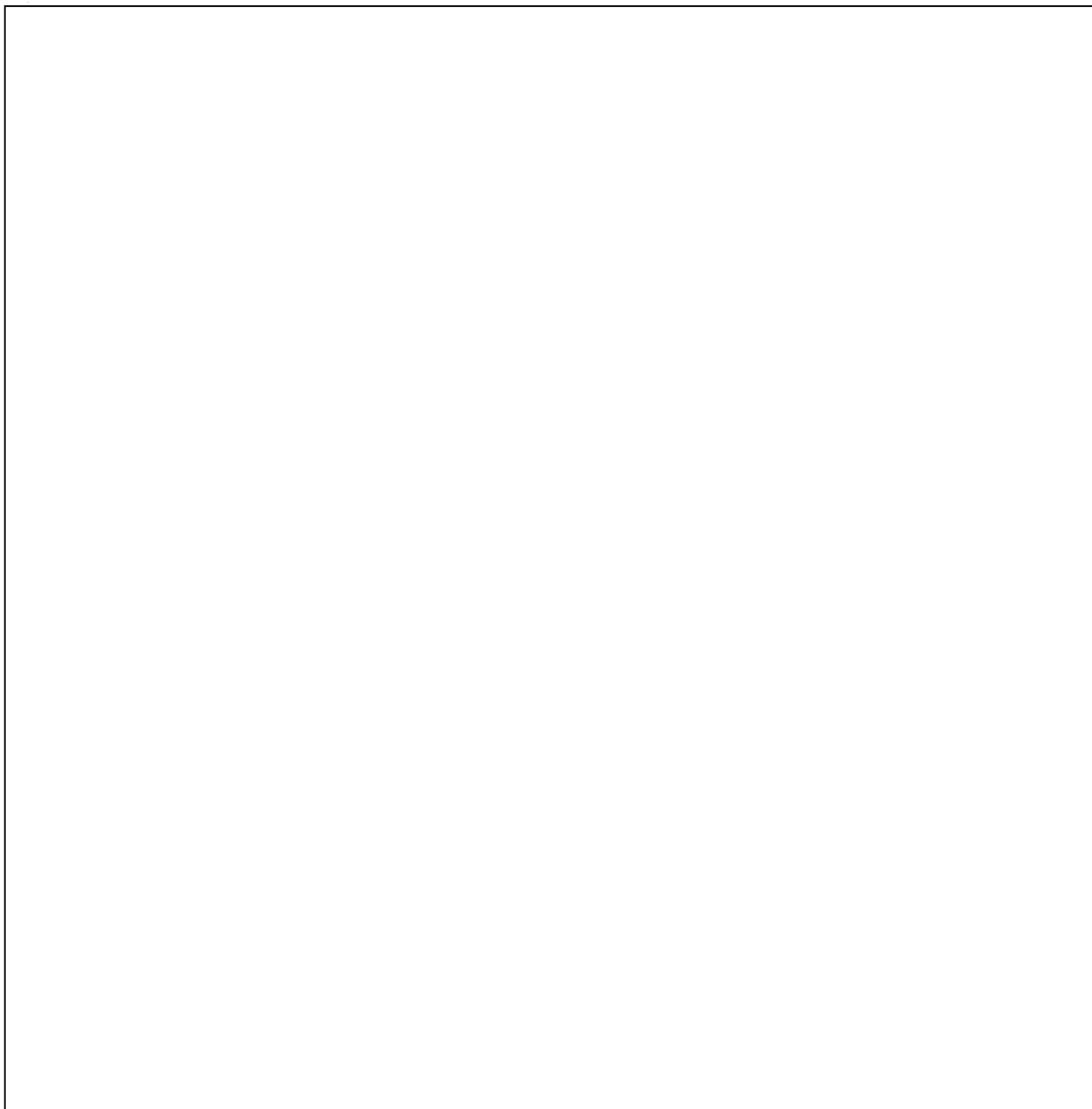


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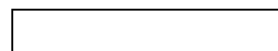
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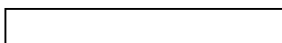
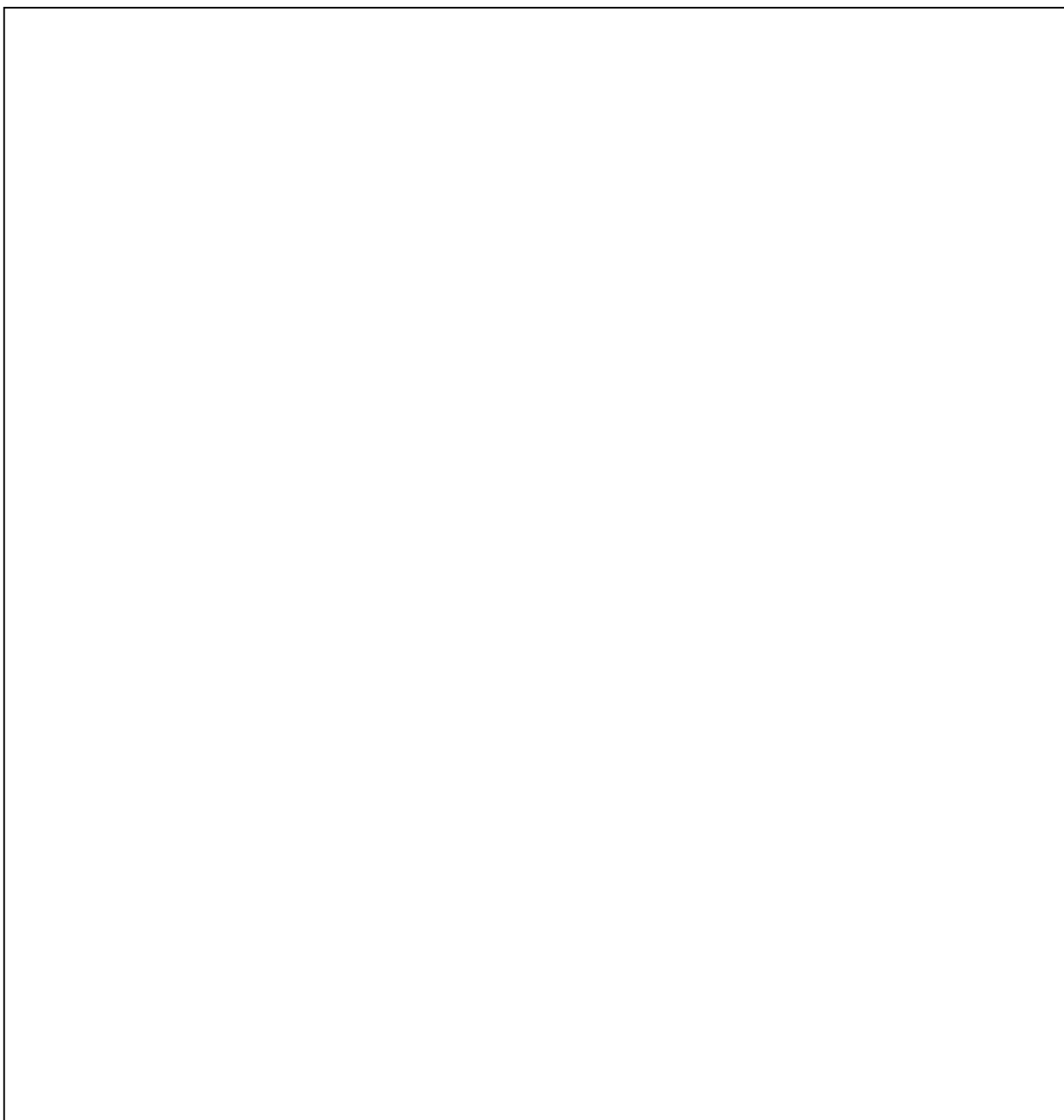
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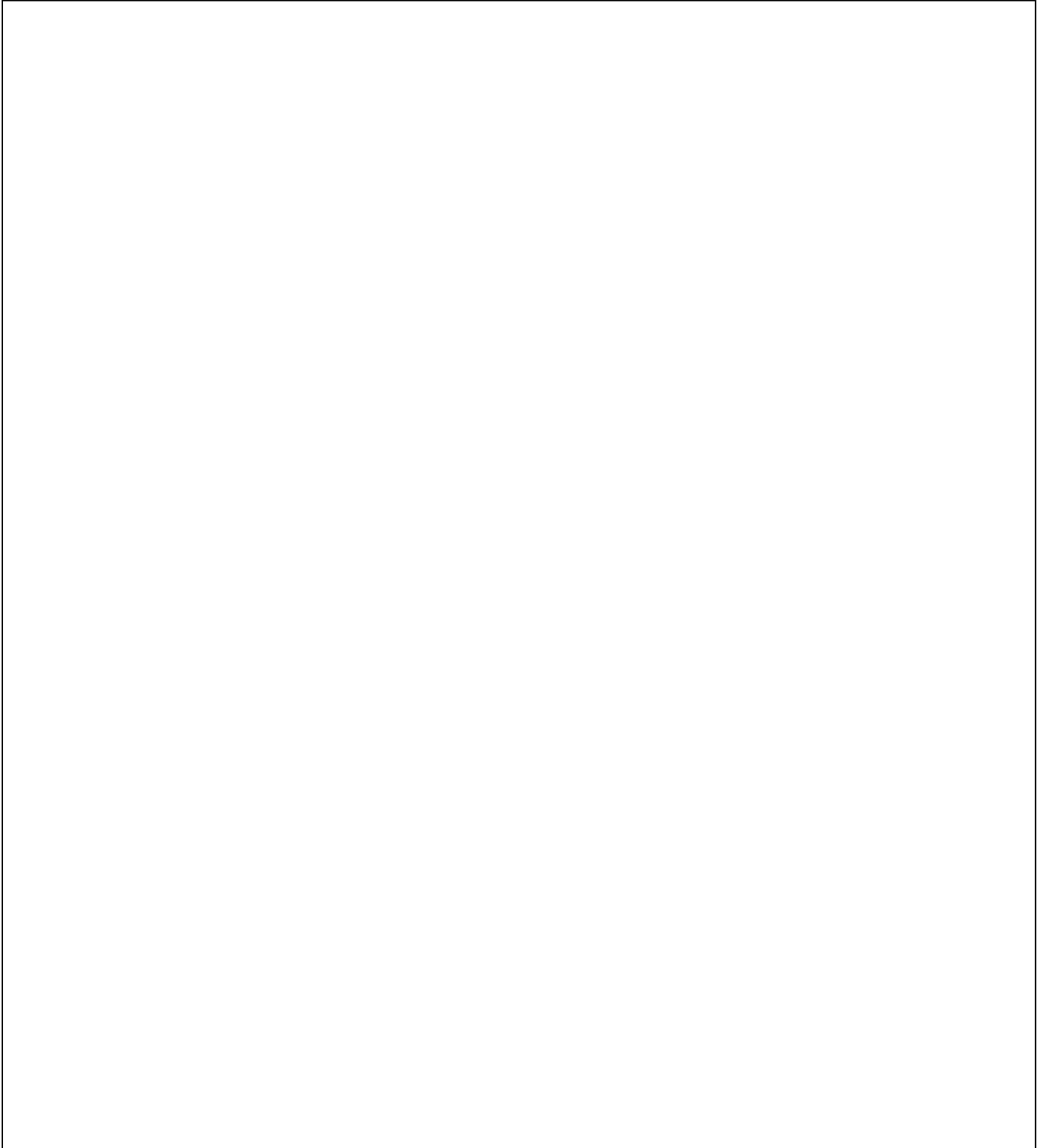
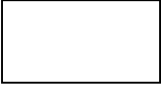


**Iranian Activity in Central Asia
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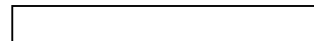


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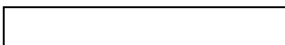
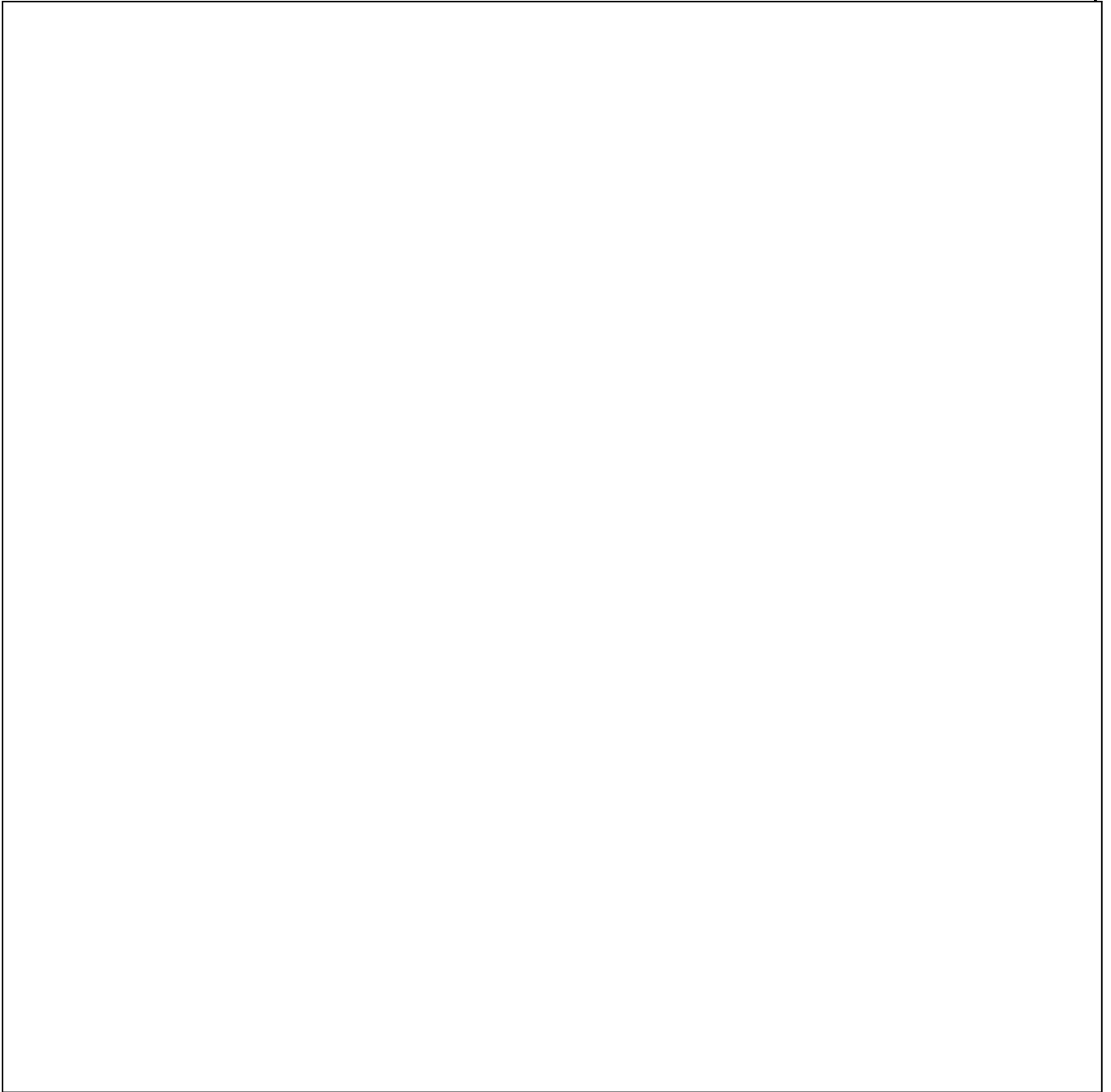
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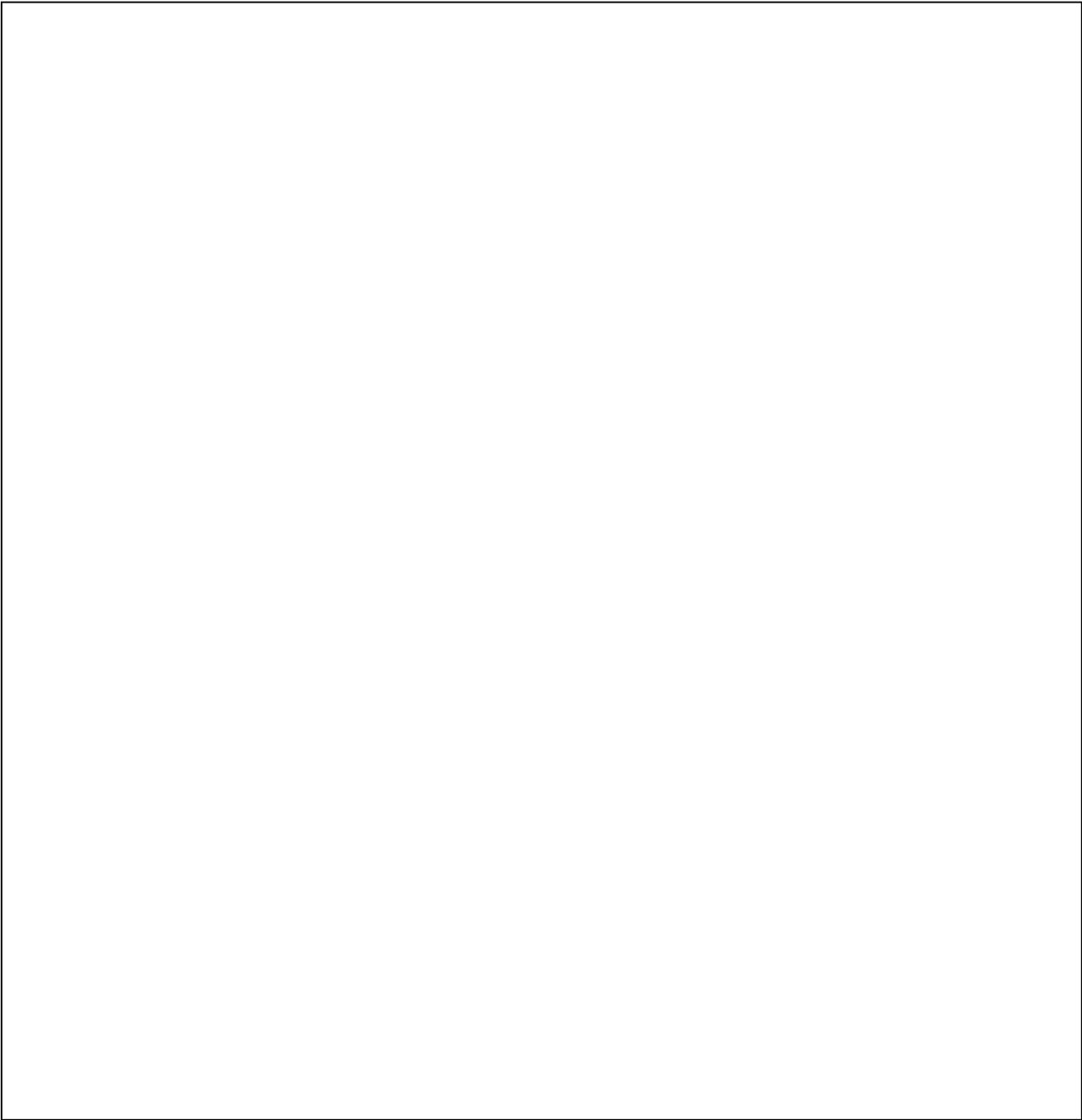


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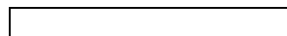


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- Tehran is concerned that Azerbaijani nationalism could ignite secessionist sentiments among Iran's ethnic Azeri minority. []

Tehran has been successful in promoting Iranian penetration of Azerbaijan. Iran's commerce with Azerbaijan is greater than with any other southern tier state. []

Conventional Policy Yields Mixed Results

Iran has met with varying degrees of success in strengthening its ties to the states of Central Asia and the Caucasus. The closest relationships that Iran enjoys in the region are based primarily on mutually beneficial economic agreements and—in most cases—are not marred by contentious issues. In other countries, Iran's ideological agenda has become a source of tension despite economic ties. With a third group of states Iran maintains cordial but minimal relations—largely because of cultural differences or geographic distance. []

The strengths and weaknesses of Iran's conventional policy toward the southern tier states are most apparent in Azerbaijan, where Iran has extensive economic and political ties but has been unable to translate them into close relations. History and religion give Iran natural links to the country. Azerbaijan was a part of the Persian empire until conquered by Russia in the early 19th century, and 78 percent of Azerbaijan's population is nominally Shia. Reflecting these links, the Islamic republic has had a consulate in Baku since at least 1986—the only one in the region before the breakup of the Soviet Union. Nonetheless, ethnic factors are an impediment to closer ties:

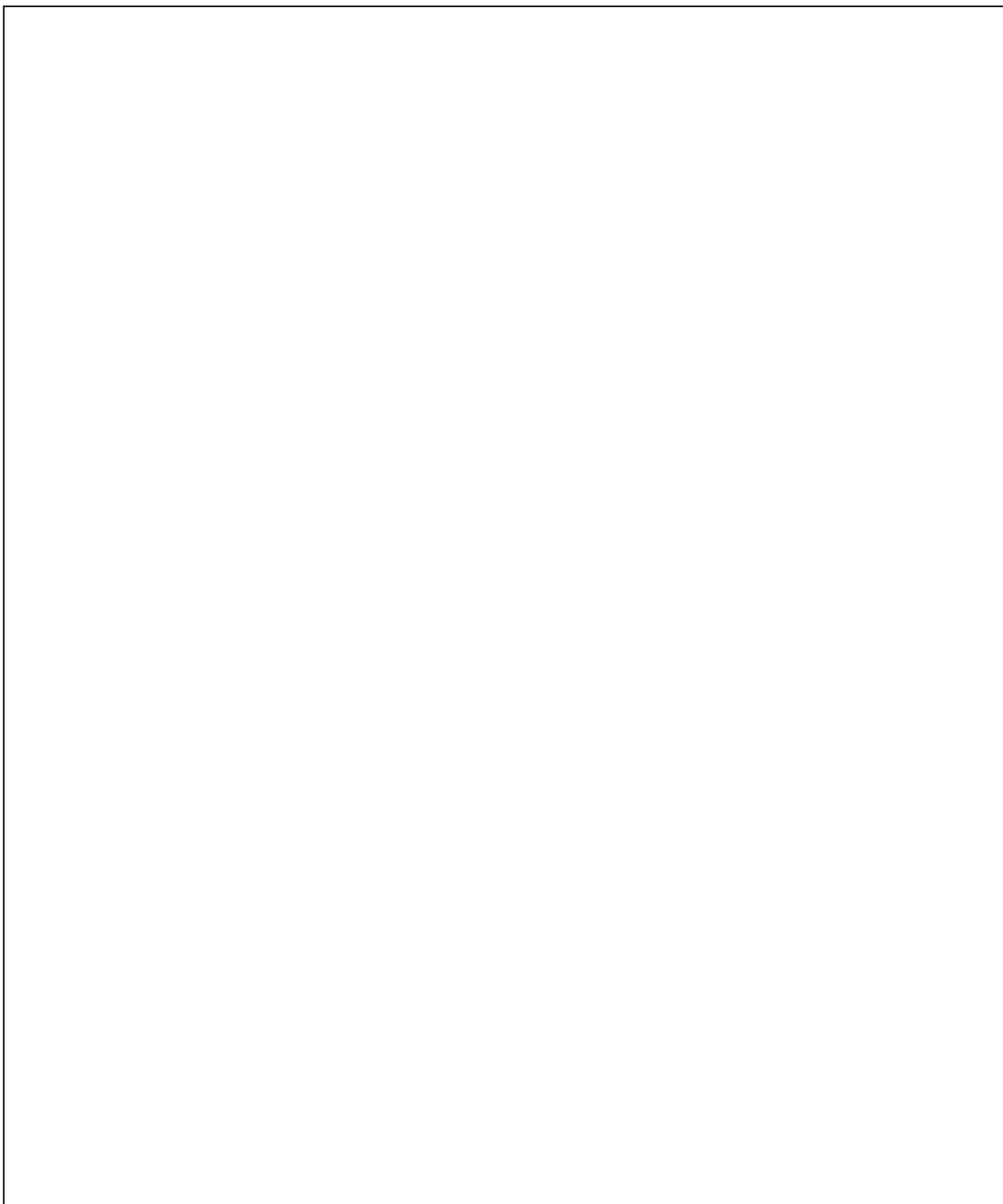
- The Azerbaijanis—ethnically Turkish—speak a Turkic language and tend to look to Turkey rather than Persian Iran for cultural and political models.

Despite evidence of increased economic and cultural cooperation between Iran and Azerbaijan, [] Azerbaijan officials see Iran as a threat. Several developments point to continued friction in relations:

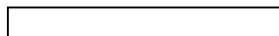
- Iranian-Azerbaijani relations took a downturn in 1995 in the wake of Iran's exclusion—in response to US pressure—from the international consortium formed to exploit three of Azerbaijan's Caspian oil fields.

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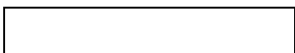
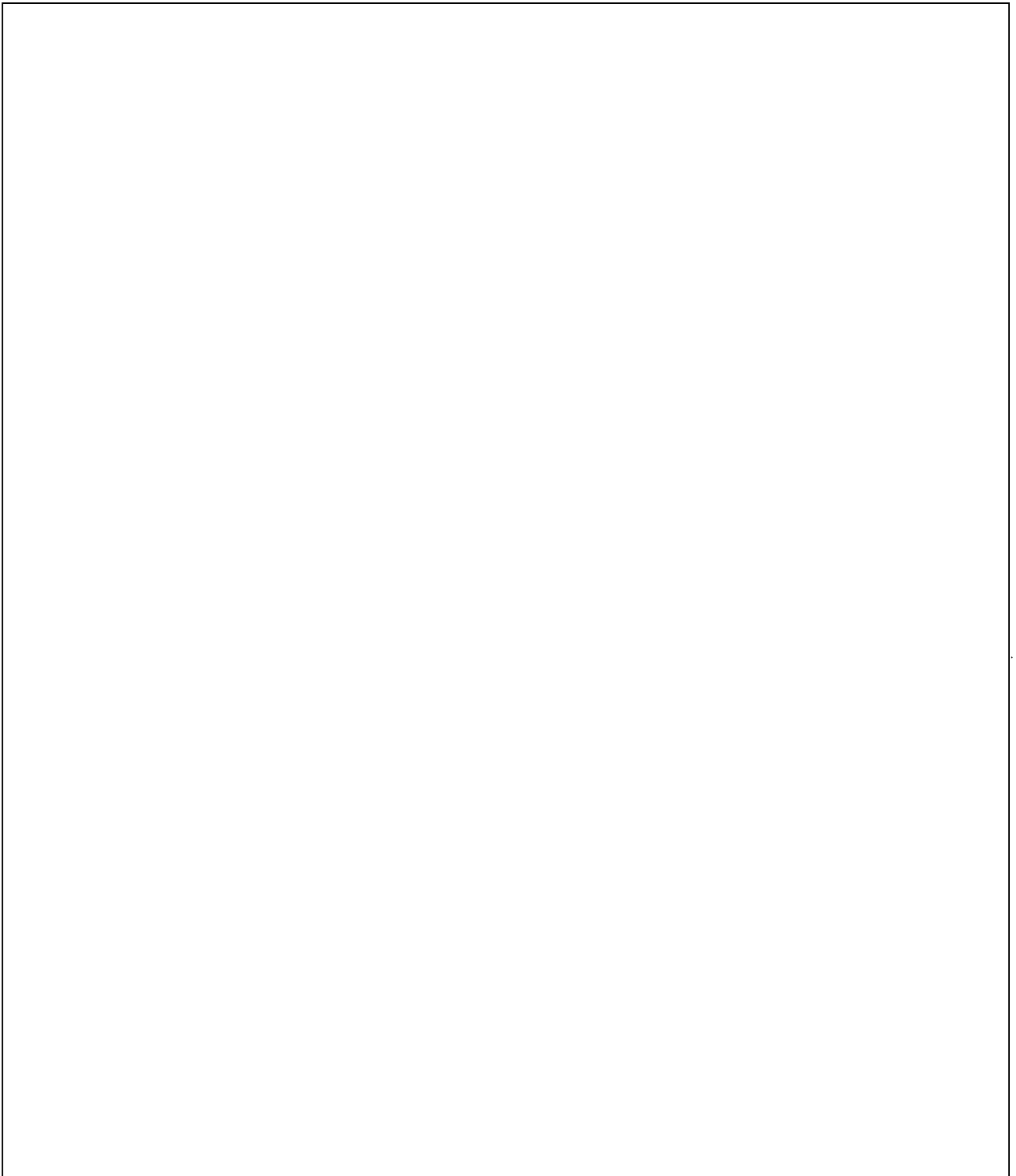
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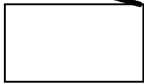


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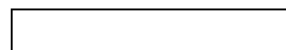


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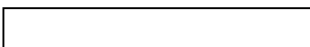
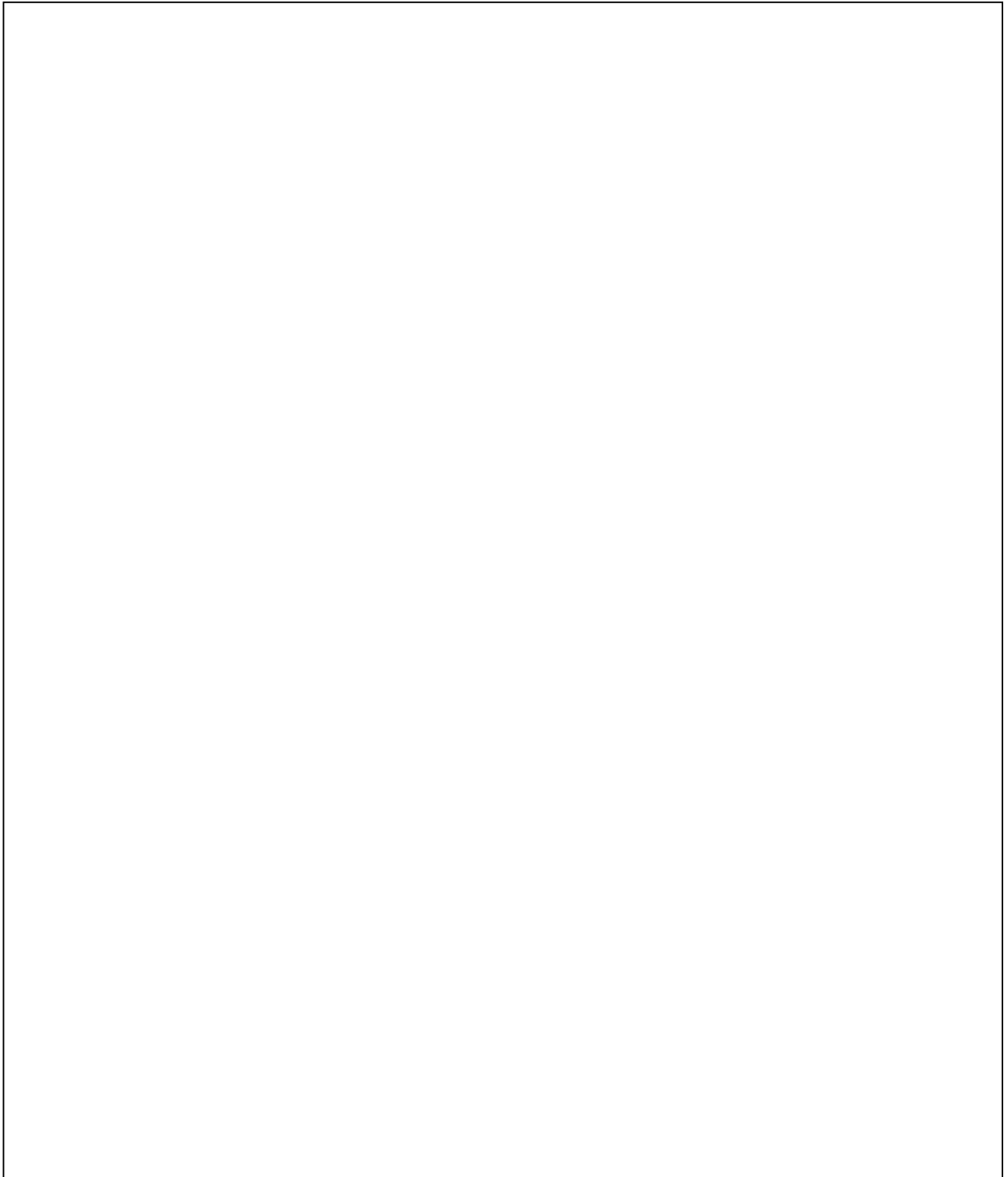
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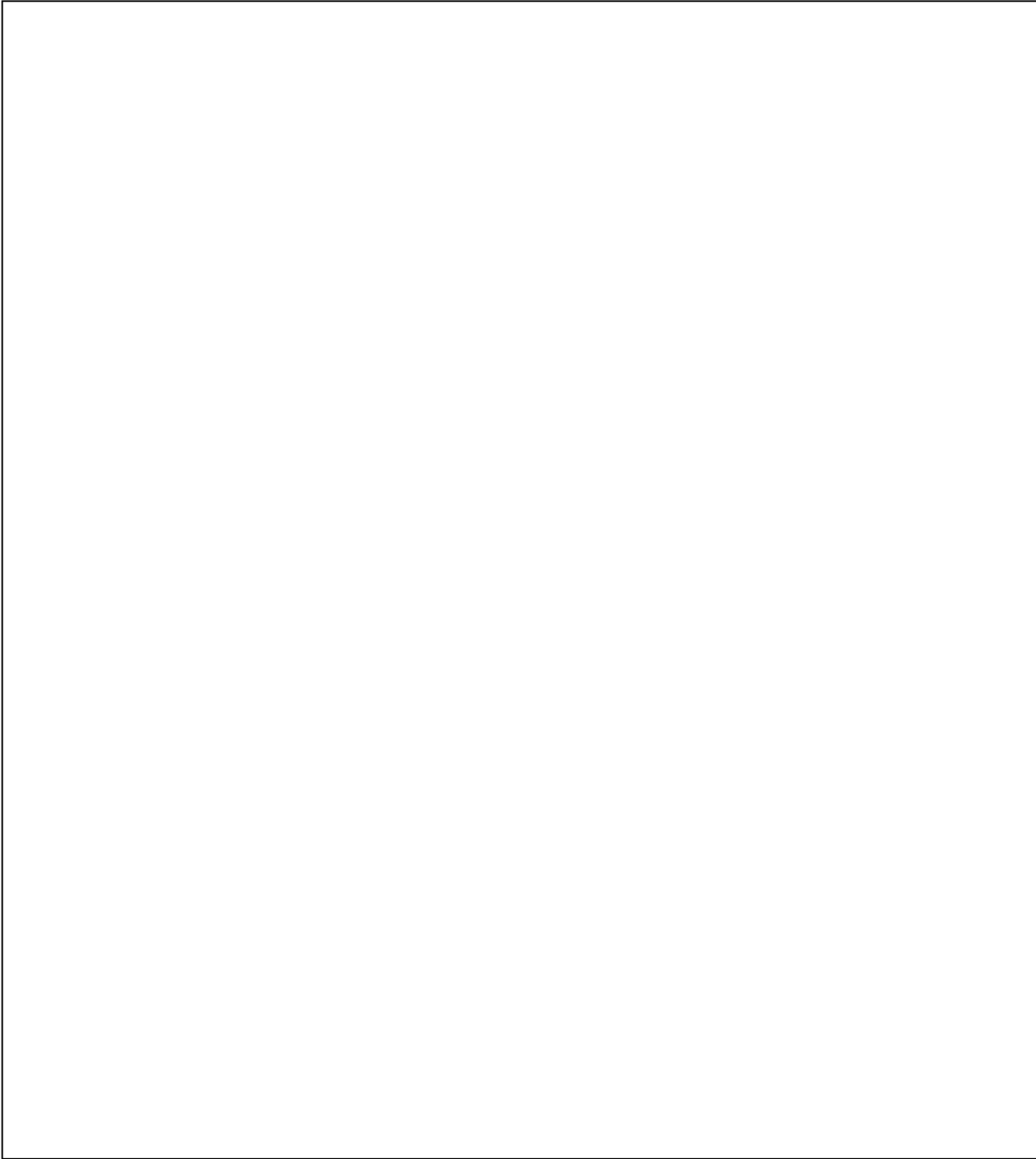


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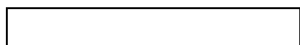
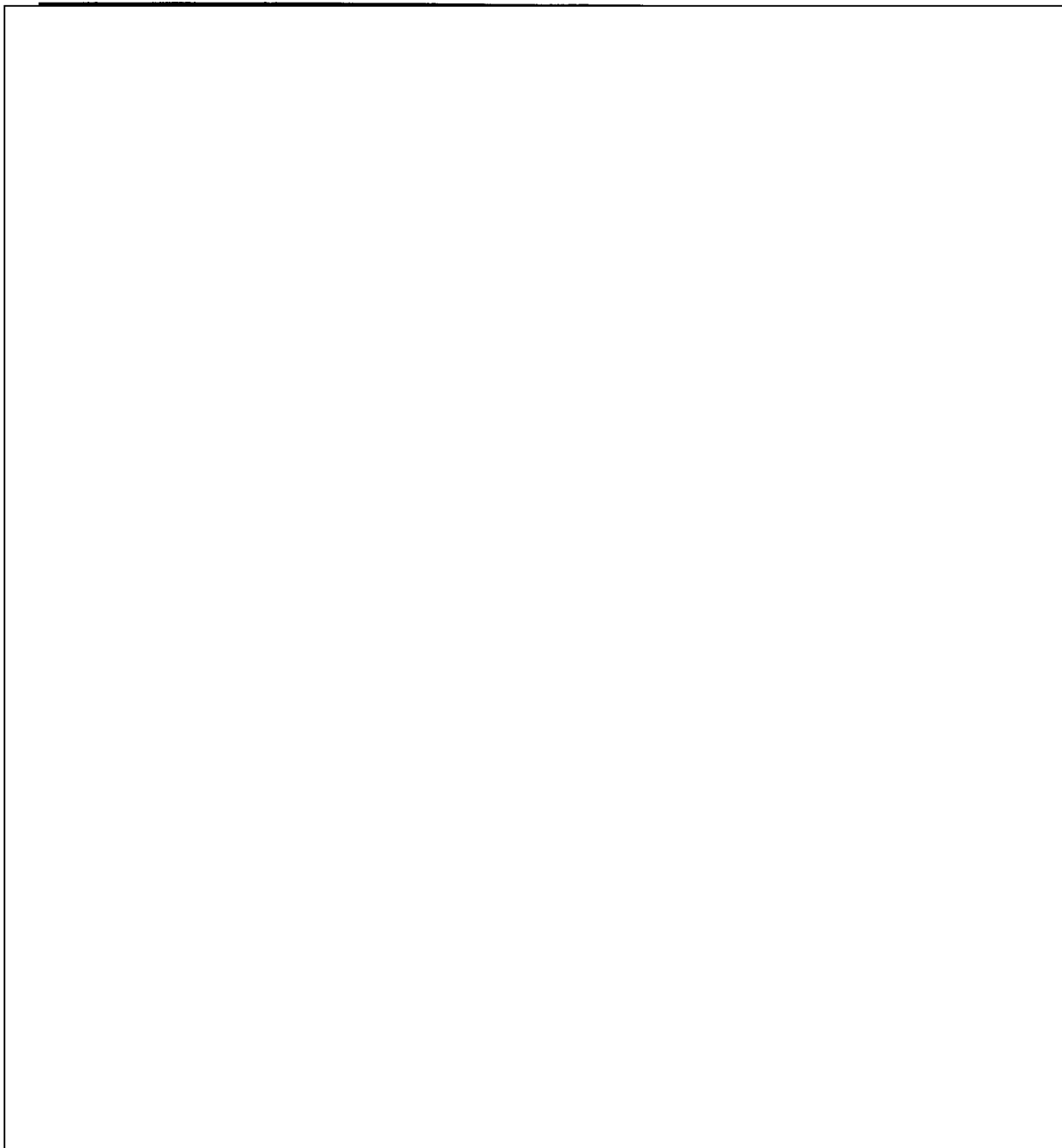
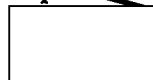
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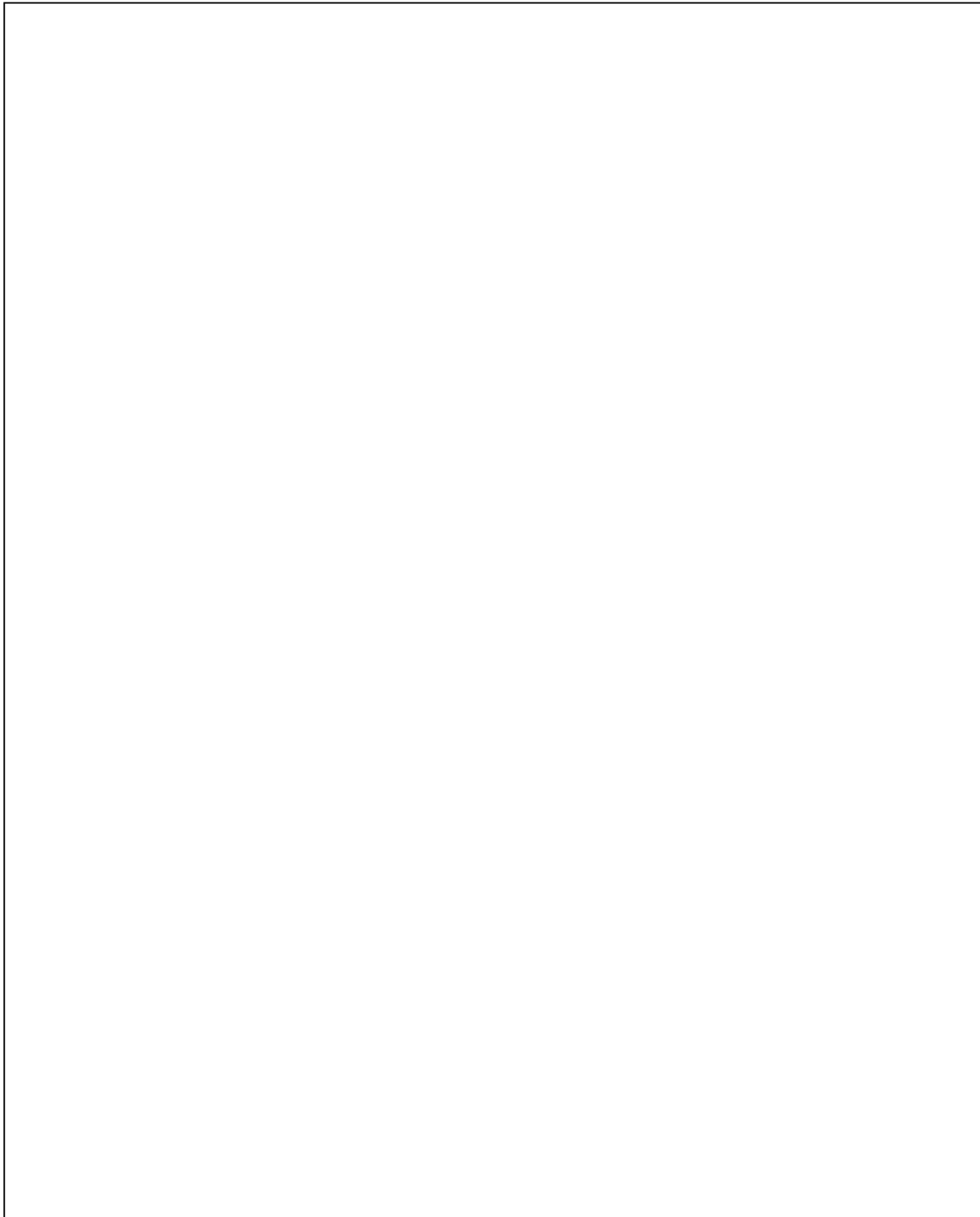


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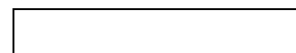


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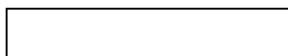
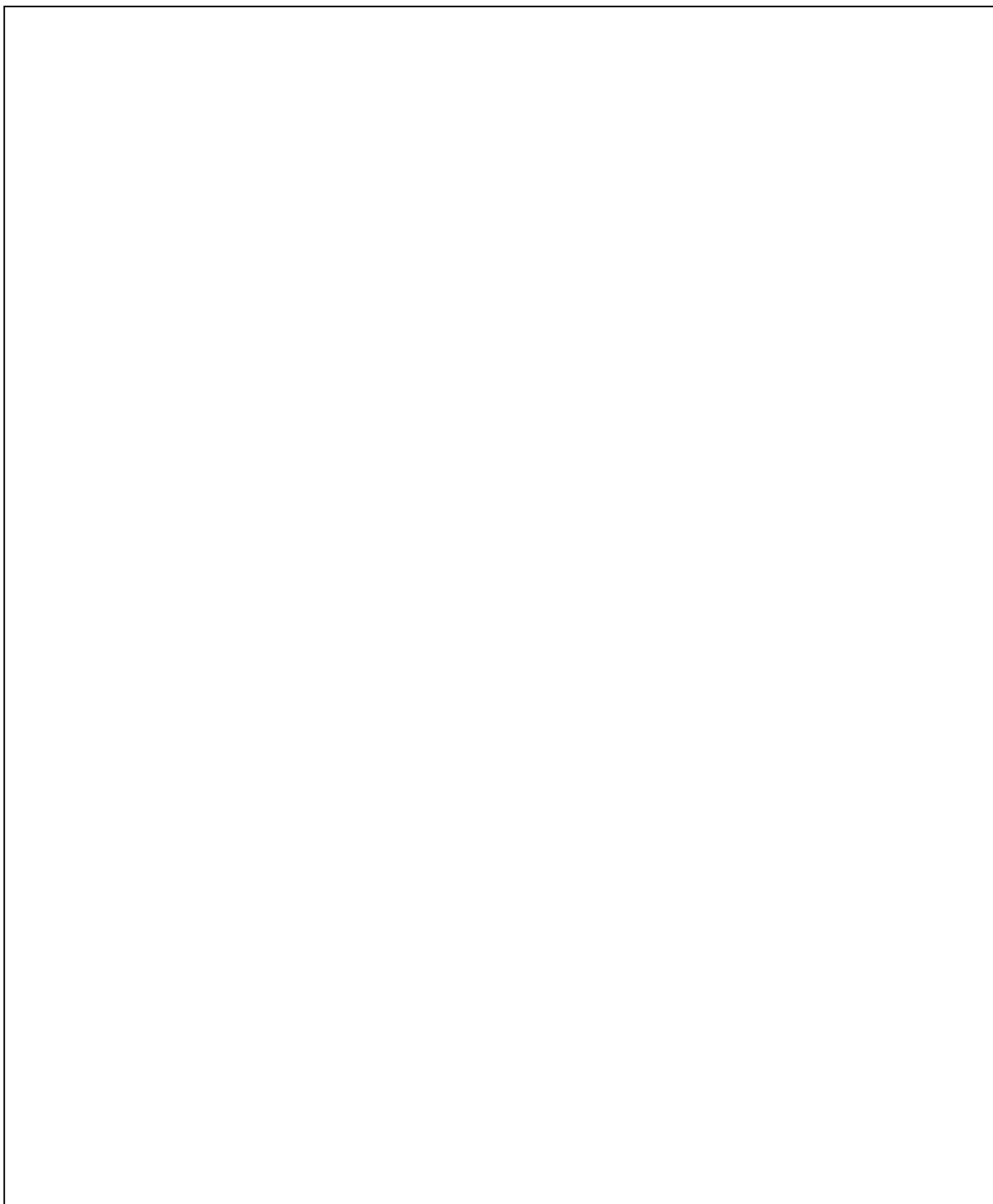
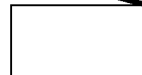
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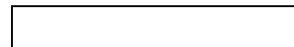
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- Iran signed an agreement in early June 1996 for a 10-percent share in the multinational consortium that will develop **Azerbaijan's** Shahdeniz oilfield. According to Iranian press reports, this contract marks the first time Iran has joined a consortium of oil firms to exploit oil in another country. The cost

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of the project is estimated at \$4 billion. Industry experts estimate recoverable resources to be about 2 billion barrels of crude oil and gas condensate and 400 billion cubic meters of natural gas, []

[] Iran agreed in January 1996 to establish a joint oil drilling company with Azerbaijan. During Azerbaijani President Aliyev's visit to Tehran in June 1994, Iran offered to invest in an oil refinery in, and a gas pipeline to, Naxcivan, [] but little progress has been noted.

Potential of the Caspian Area's Petroleum Resources []

The largely untapped deposits of the Caspian Sea basin are among the largest unexploited petroleum reserves in the world. The Caspian area holds at least 60 billion barrels of recoverable oil resources—similar to the resource base of the North Sea— []

- Some industry experts have estimated that the Caspian region has about 135 billion barrels of "possible" resources, pegging ultimately recoverable resources in the Caspian region at nearly 200 billion barrels.
- Gas reserves—proved, probable, and possible—are estimated at about 279 trillion feet—more than US proved reserves of 176 trillion cubic feet. []

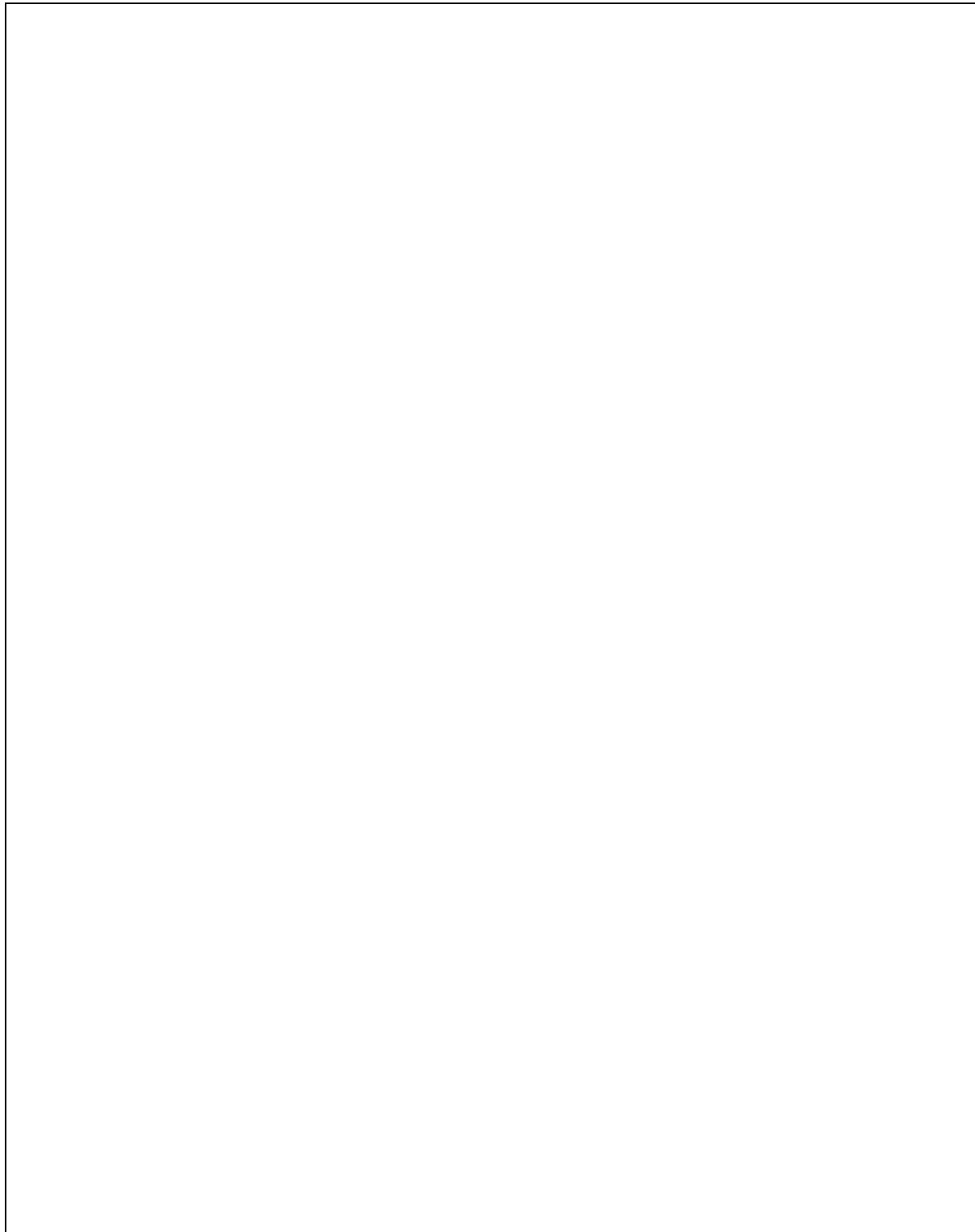
The participation of Western companies in exploration could substantially increase the region's reserves. Much of the region is unexplored because for the past three decades the Soviet Union devoted most of its resources to exploitation of the prolific West Siberia basin. New oil discoveries in the Caspian region most likely will be found in deep deposits below an extensive salt layer. Such deposits are difficult to penetrate with Soviet-era seismic equipment, and development could be complicated by high pressures and corrosive gases. The supergiant Tengiz field in Kazakhstan is one such deposit. []

- Tehran has offered oil swap arrangements to Azerbaijan, Turkmenistan, and Kazakhstan, whereby oil from the southern tier states would be delivered to northern Iran and an equivalent amount of Iranian oil would be exported from the Persian Gulf, according to press []

[] According to press reporting, initial deliveries will be around 40,000 barrels per day (b/d) and could increase to 120,000 b/d in the next 10 years.

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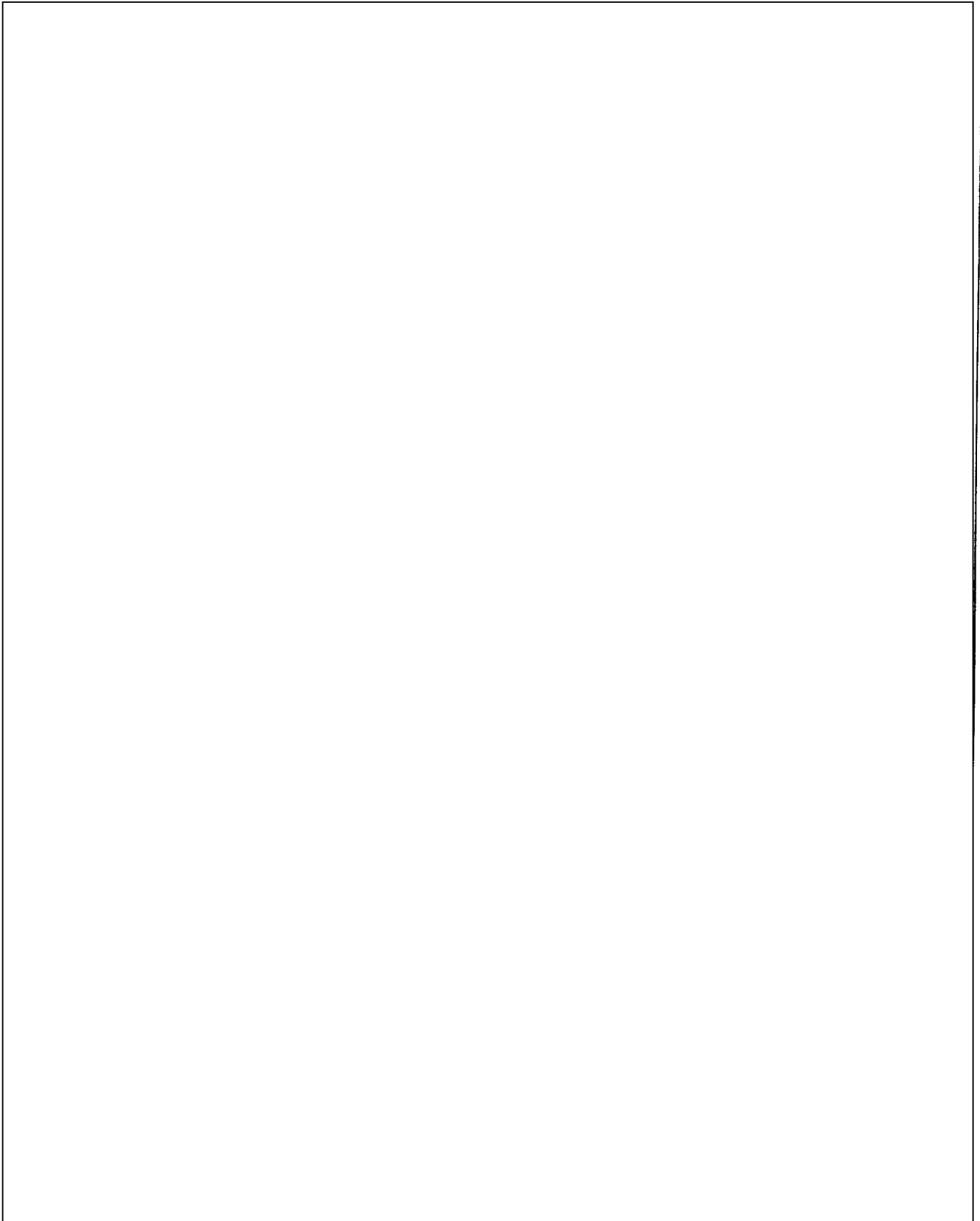
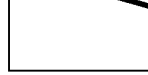
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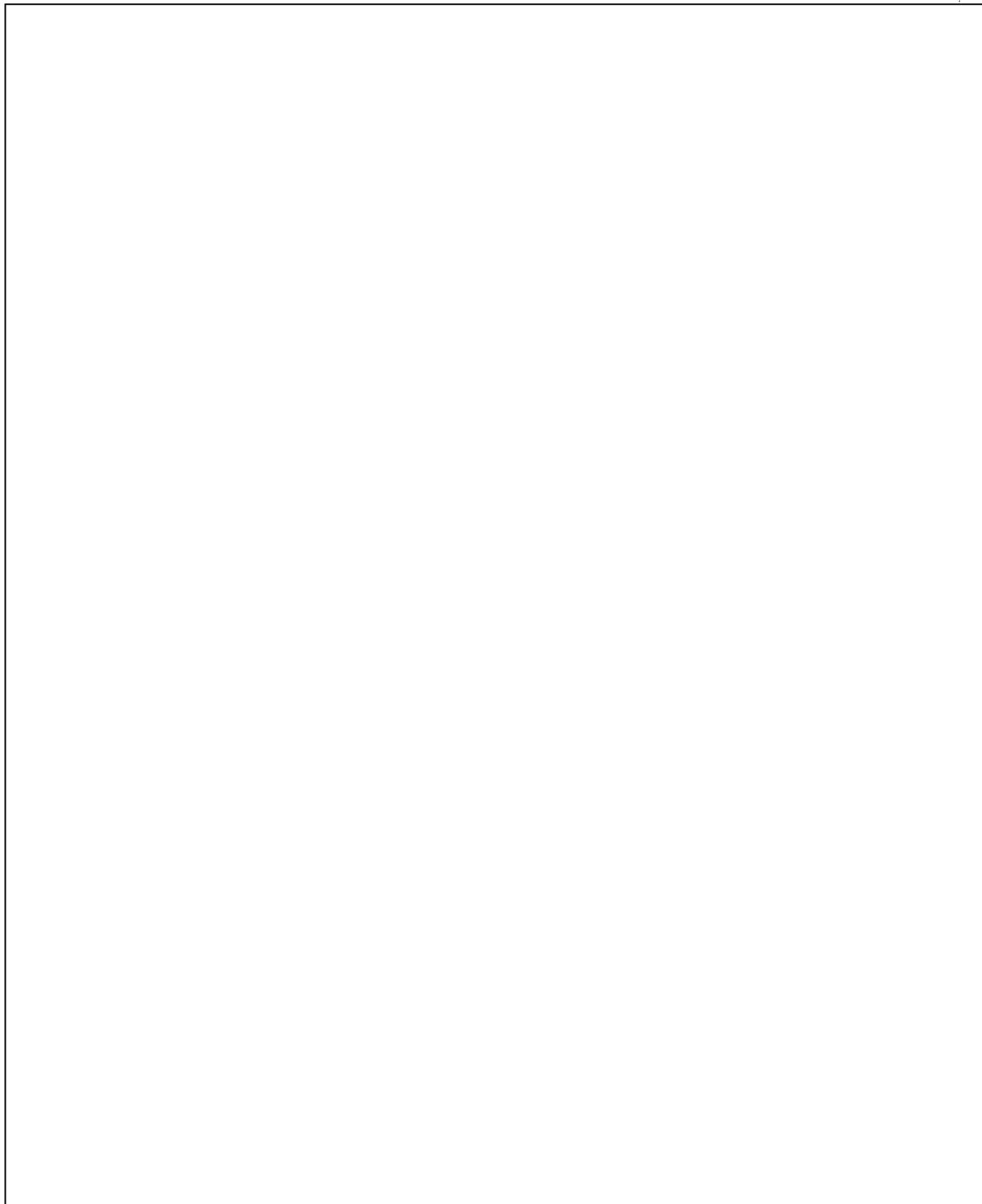
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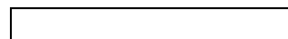
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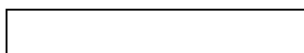
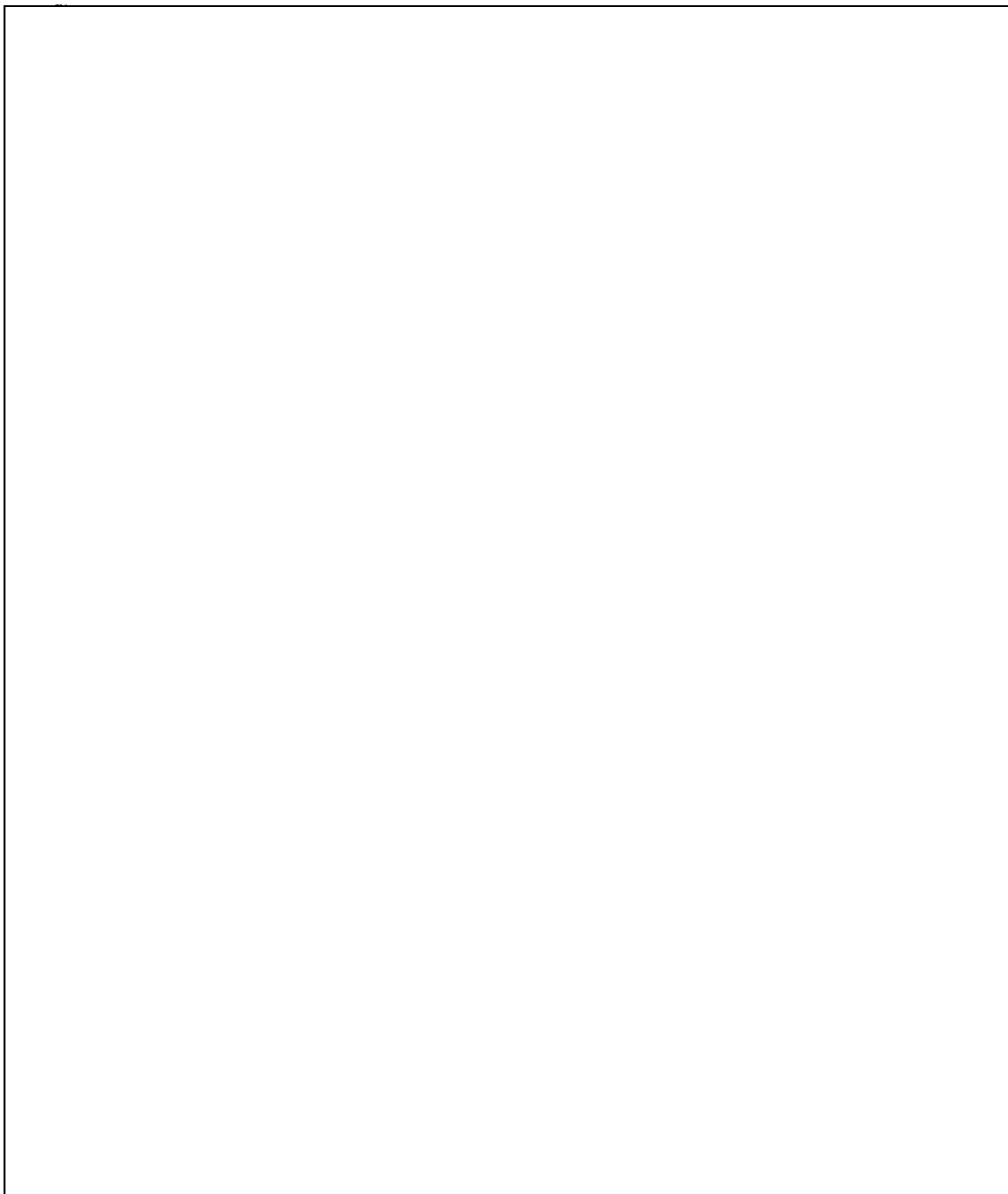
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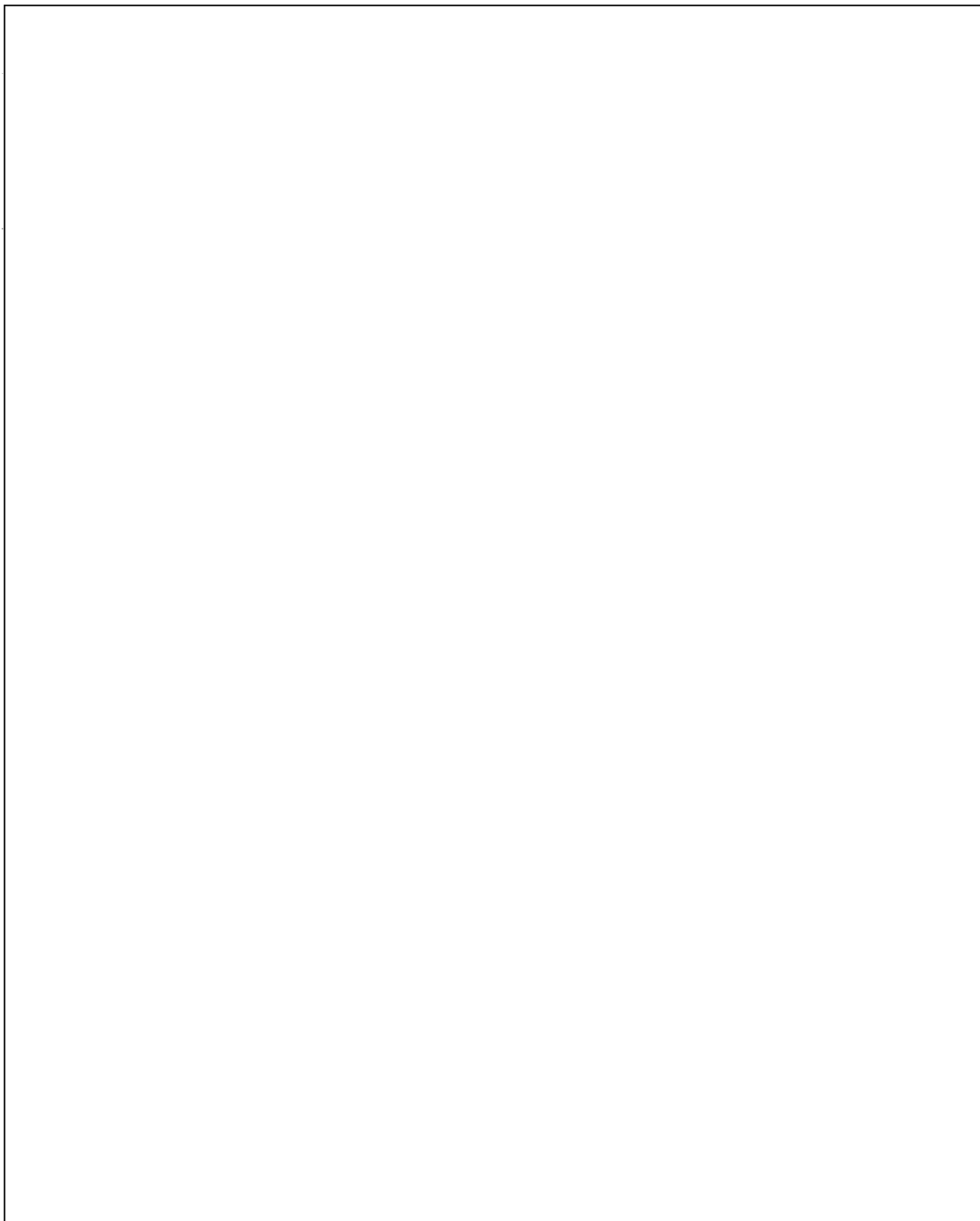


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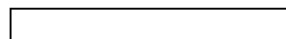


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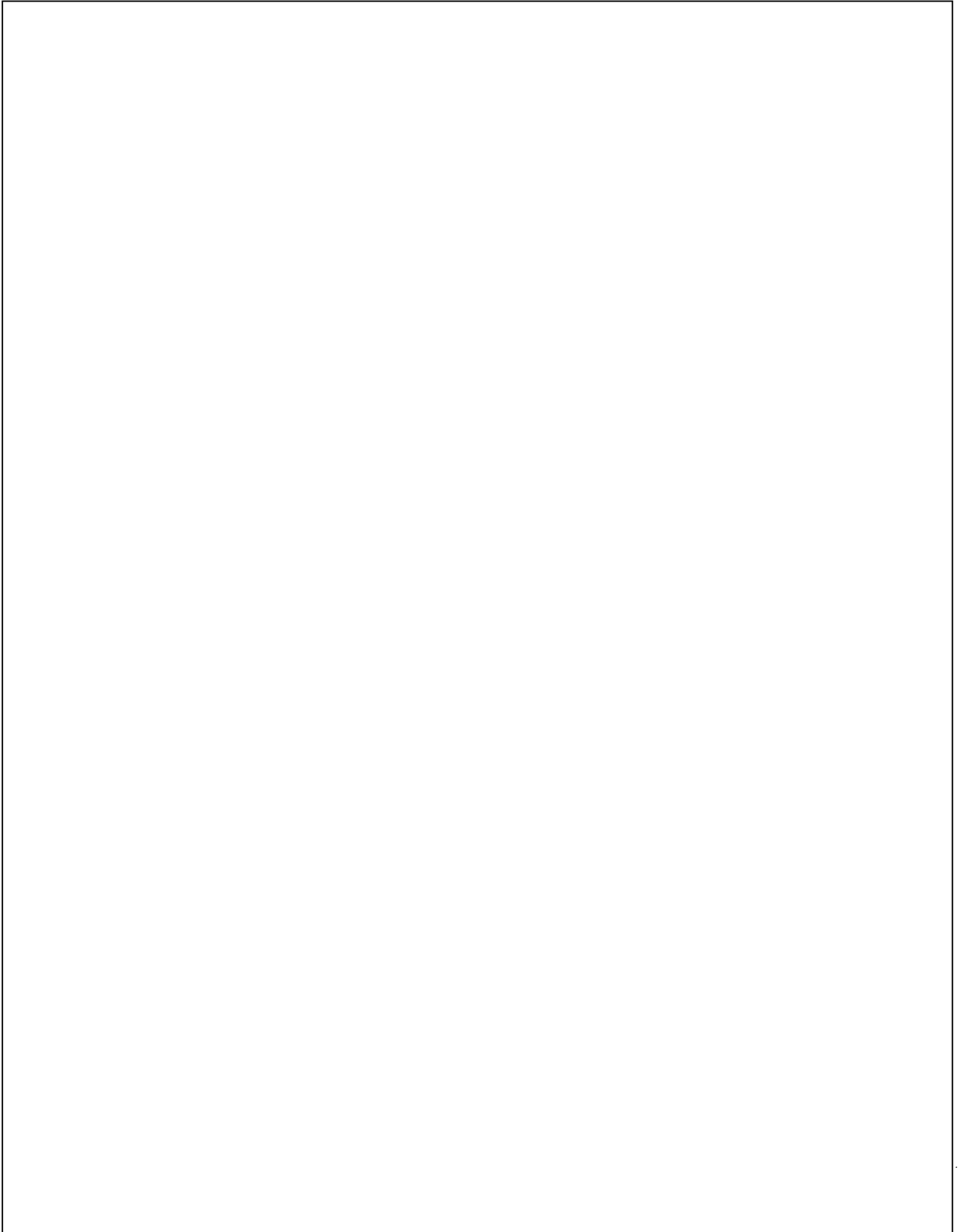
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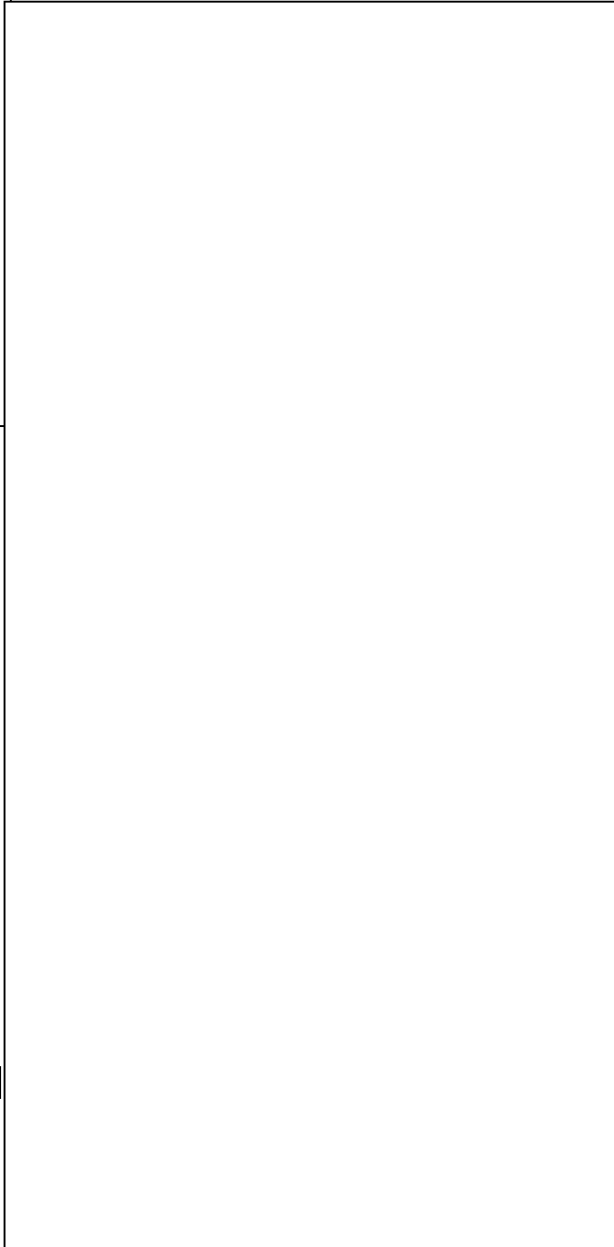
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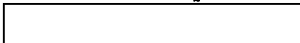
airline and is setting up a trade and development bank, according to press reporting.

- Iran is trying to reenergize the Caspian Sea states' cooperation council, especially regarding trade and environmental issues, according to press reports.

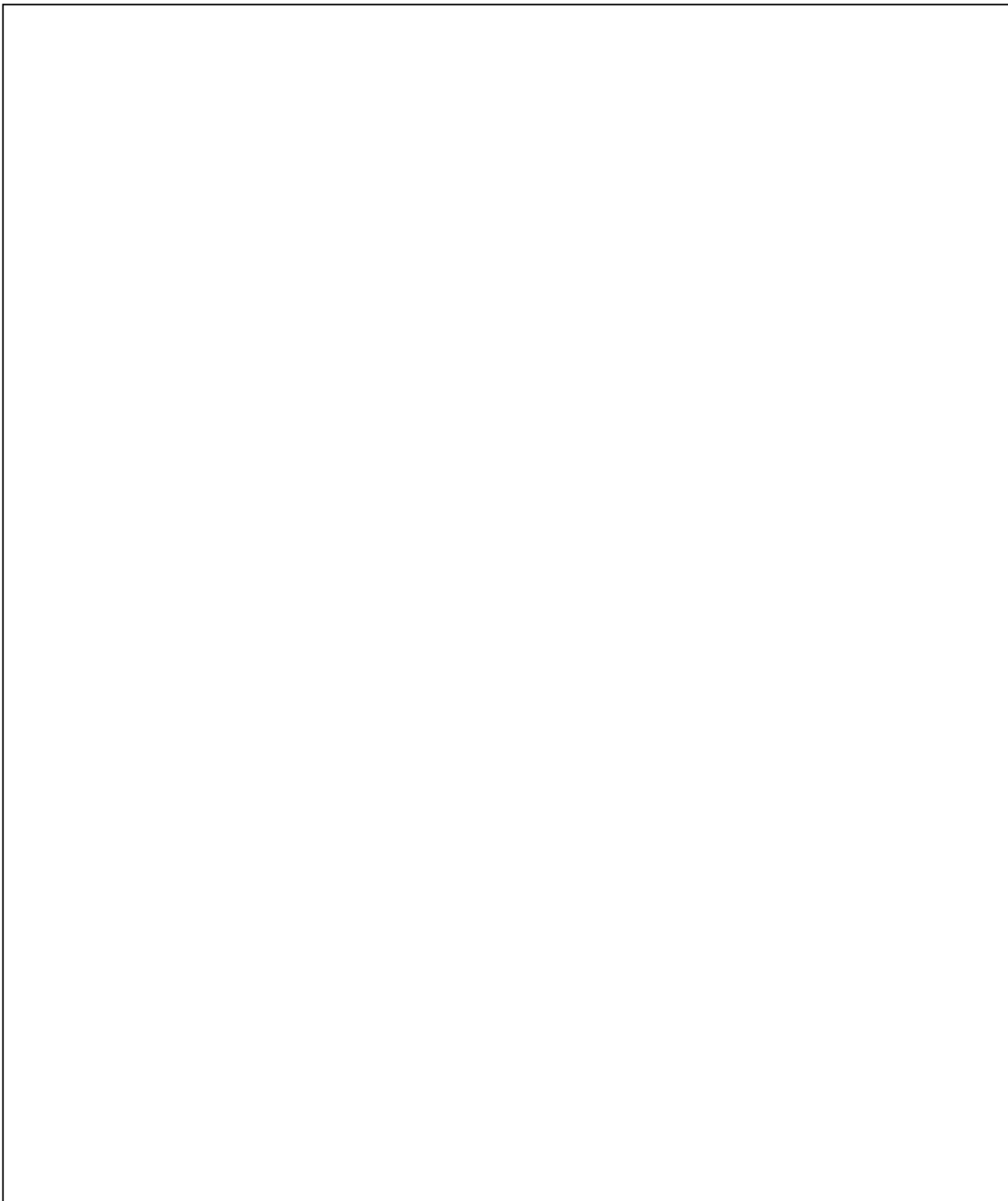


Broker for the Region

In addition to its bilateral efforts, Iran is trying to present itself as a broker for Central Asia and the Caucasus in attracting foreign investment and promoting trade ties:

- Iran sponsored a Caspian Sea oil and gas conference in December 1995 to discuss financing for projects, oil and gas trade logistics, and marketing from the region. Iran's Petroleum Minister told southern tier officials and international energy and engineering firms attending the conference that Tehran was willing to help southern tier states export their hydrocarbon resources through pipelines and swap arrangements. He noted that greater economic interdependence would guarantee peace and stability in the region.
- Tehran attempted to promote joint Gulf-Iran investments in Central Asia and the Caucasus, particularly in Azerbaijan, during the Iranian First Deputy Foreign Minister's trip to Kuwait in early 1995, 

- Iran is using the Economic Cooperation Organization to build its role as a regional player. The group has recently created a joint shipping company and

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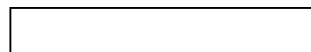


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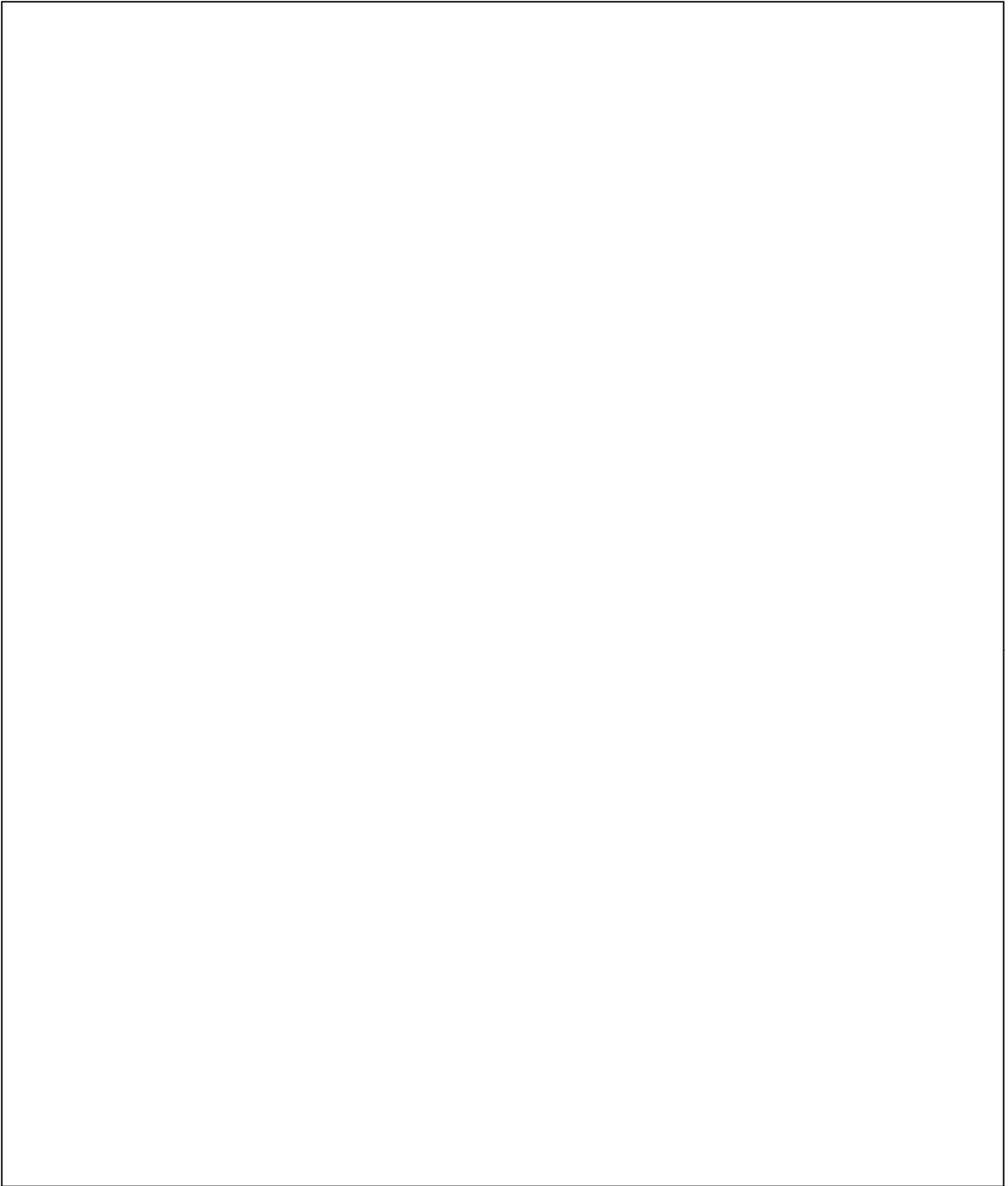
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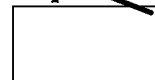


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Iran, concerned by what it views as US encroachment in its sphere of influence, could further complicate Caspian oil extraction. It can do this most easily by

continuing to press in conjunction with Russia for an international resolution to the legal dispute over the demarcation of the Caspian Sea:

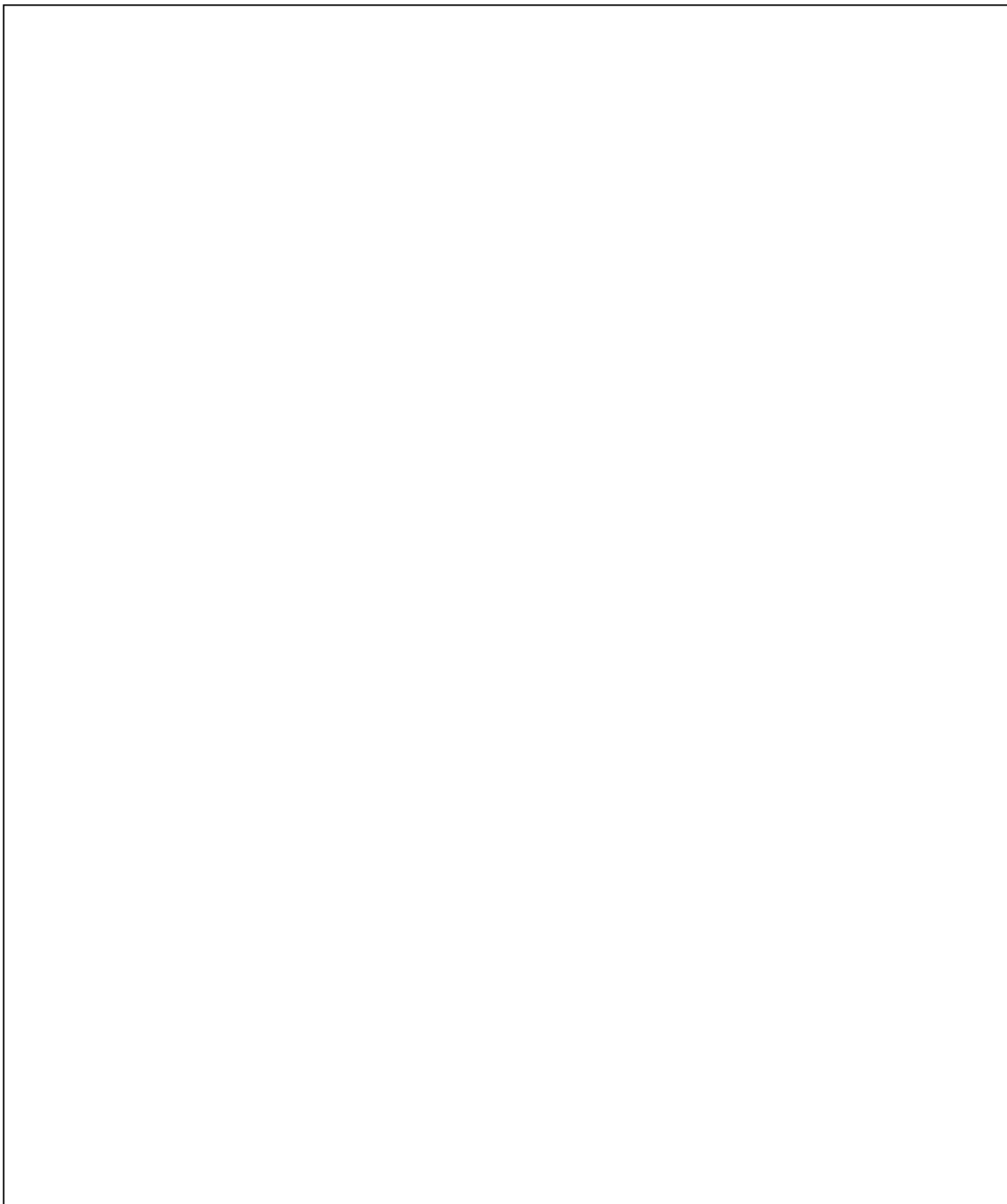
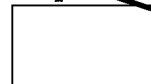
- Azerbaijan—the main proponent of establishing national zones instead of a condominium in the Caspian Sea—has become more dependent on Iran in the past year for access to key imports. As a result, Iran is better positioned to squeeze Baku economically if Azerbaijan fails to include Tehran in Caspian energy developments.



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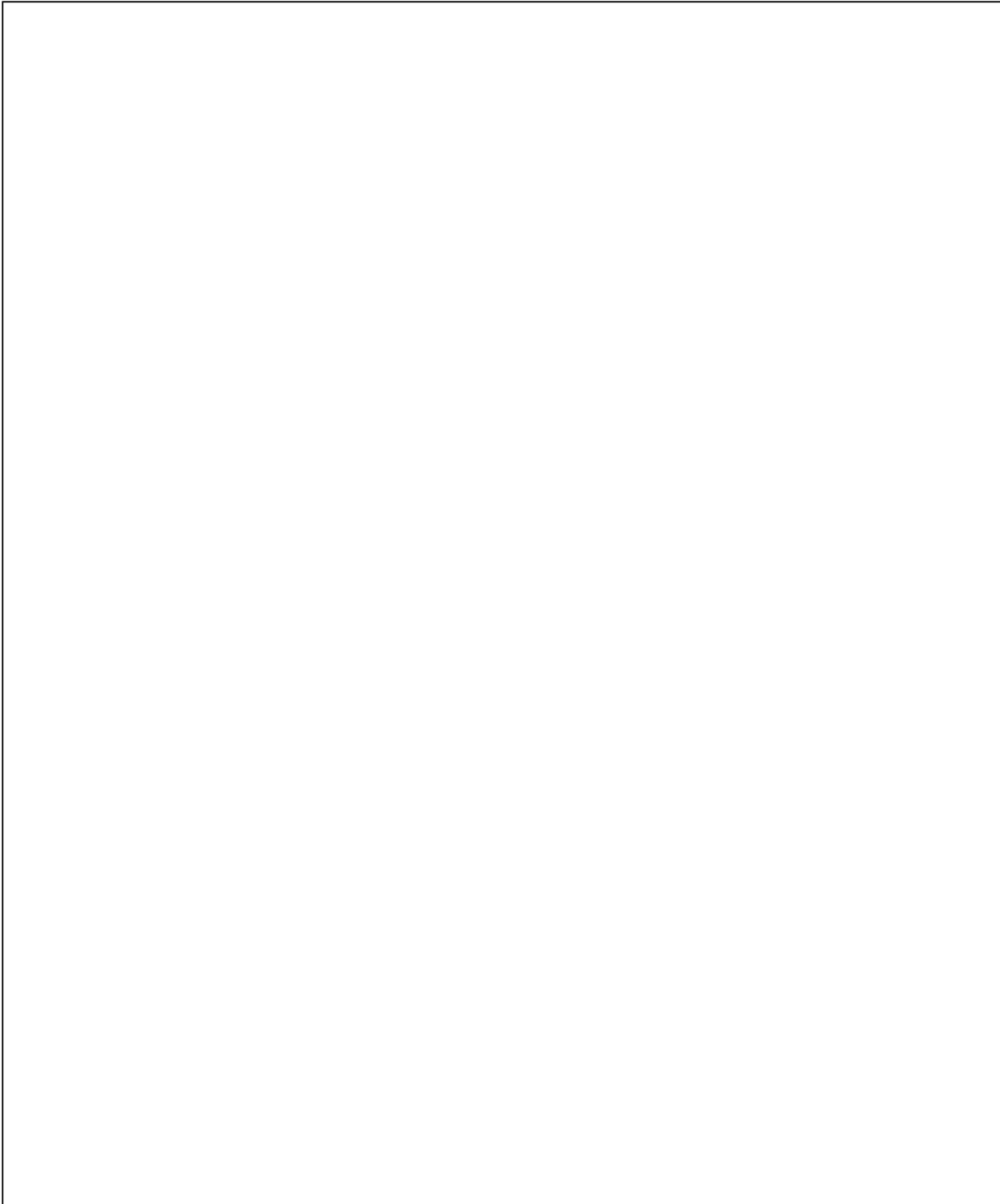


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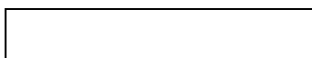
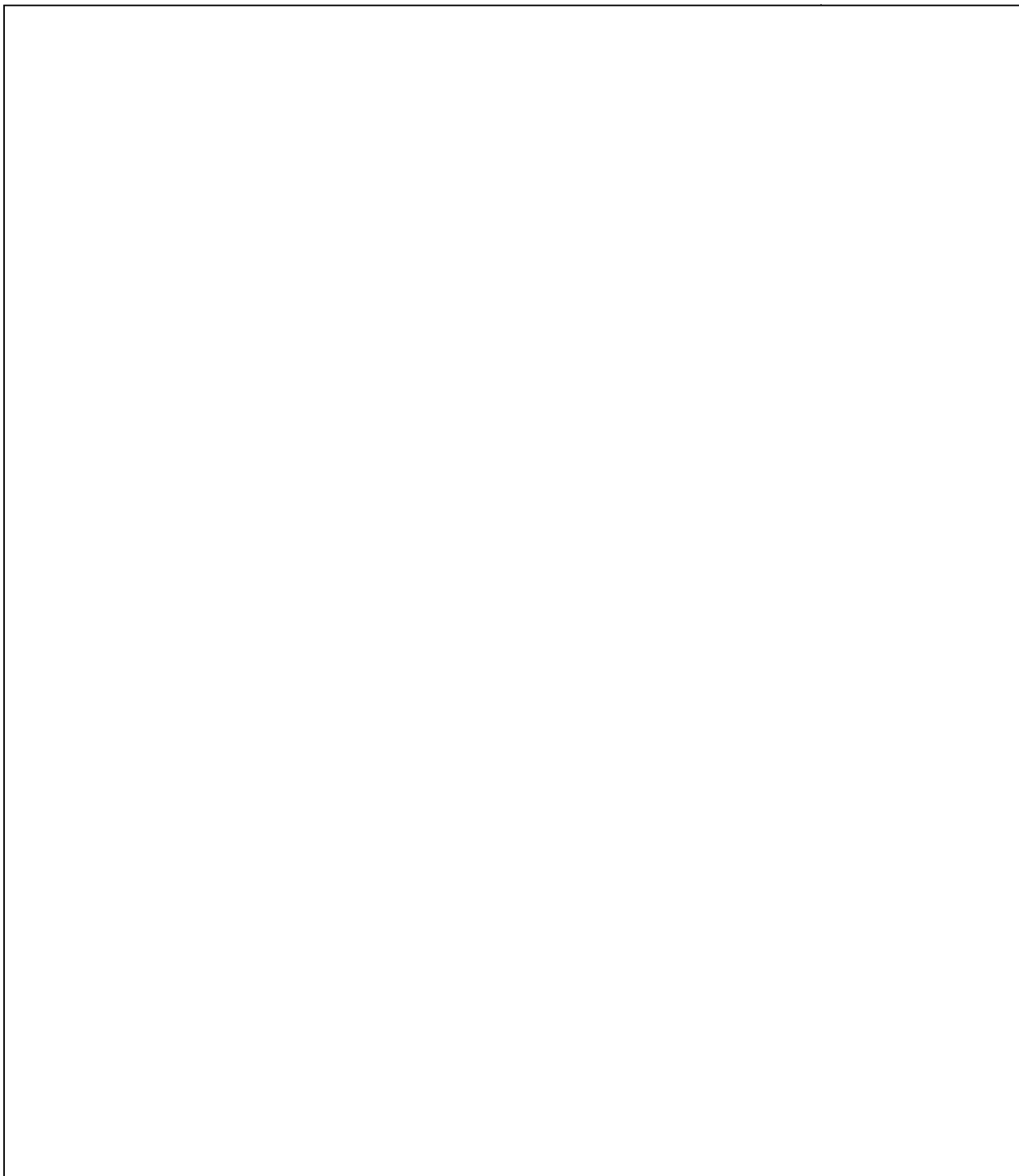
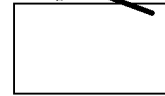
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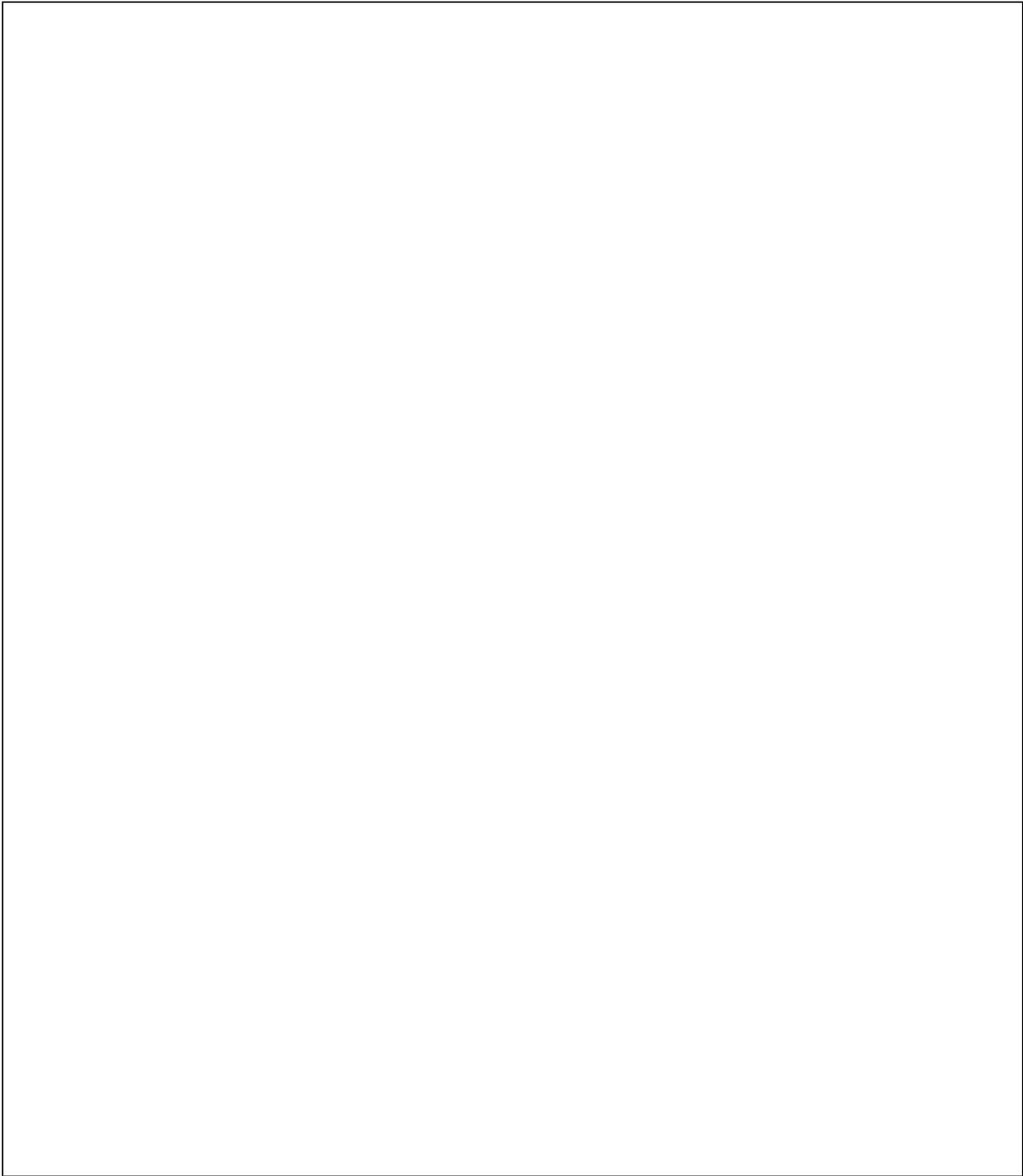


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